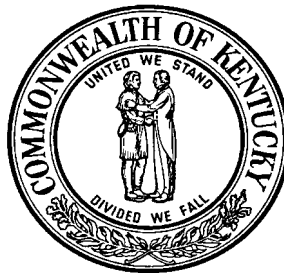


**REPORT OF THE AUDIT OF THE
CLAY COUNTY
CLERK**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLAY COUNTY CLERK

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Clay County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$42,014 from the prior year, resulting in excess fees of \$87,823 as of December 31, 2008. Revenues decreased by \$141,127 from the prior year and expenditures decreased by \$99,113.

Debt Obligations:

Total debt principal as of December 31, 2008, was \$5,040. Future collections of \$5,040 are needed over the next four (4) years to pay all debt principal and interest.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Clay County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2009 on our consideration of the Clay County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Clay County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

October 9, 2009

CLAY COUNTY
 FREDDY W. THOMPSON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Fees For Services		\$	8,637
Fiscal Court			32,233
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	627,735	
Usage Tax		851,123	
Tangible Personal Property Tax		1,130,790	
Notary Fees		1,922	
Other-			
Fish and Game Licenses		4,198	
Marriage Licenses		7,100	
Occupational Licenses		592	
Entertainment Permits		20	
Deed Transfer Tax		13,304	
Delinquent Tax		242,452	
Affordable Housing Trust		18,486	2,897,722
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		7,489	
Real Estate Mortgages		4,040	
Chattel Mortgages and Financing Statements		63,979	
Powers of Attorney		640	
All Other Recordings		31,150	
Charges for Other Services-			
Copywork, Postage & Fax		15,846	123,144
Other:			
Miscellaneous		4,556	
Candidate Filing Fees		1,700	6,256
Interest Earned			1,459
Total Revenues			3,069,451

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
 FREDDY W. THOMPSON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 456,822
Usage Tax	825,514
Tangible Personal Property Tax	457,756

Licenses, Taxes, and Fees-

Fish and Game Licenses	4,062	
Delinquent Tax	27,762	
Legal Process Tax	19,244	
Affordable Housing Trust	18,486	\$1,809,646

Payments to Fiscal Court:

Tangible Personal Property Tax	87,838	
Delinquent Tax	21,944	
Deed Transfer Tax	12,629	
Occupational Licenses	486	122,897

Payments to Other Districts:

Tangible Personal Property Tax	526,340	
Delinquent Tax	129,808	656,148

Payments to Sheriff

3,852

Payments to County Attorney

34,536

Operating Expenditures:

Personnel Services-

Deputies' Salaries	178,108
Part-Time Salaries	7,800
Overtime	5,064

Employee Benefits-

Employer's Share Social Security	20,190
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The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
FREDDY W. THOMPSON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Contracted Services-

Advertising \$ 2,300

Printing and Binding 17,051

Materials and Supplies-

Office Supplies 16,688

Other Charges-

Conventions and Travel 3,832

Dues 660

Postage 5,108

Unemployment Insurance 1,688

Miscellaneous 370

Computer Service Support 7,913 \$ 266,772

Debt Service:

Lease Purchases 1,344

Total Expenditures \$ 2,895,195

Net Revenues 174,256

Less: Statutory Maximum 79,308

Excess Fees 94,948

Less: Expense Allowance 3,600

Training Incentive Benefit 3,525 7,125

Excess Fees Due County for 2008 87,823

Payments to Fiscal Court - April 30, 2008 82,024

- March 12, 2009 5,661

- March 23, 2009 138 87,823

Balance Due Fiscal Court at Completion of Audit \$ 0

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Clay County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Clay County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Lease

The Office of the County Clerk entered into a lease agreement on October 18, 2007, with Pitney Bowes for a postage machine and scale. The agreement requires quarterly payments of \$336 for 60 months to be completed on October 18, 2012. The County Clerk made payments of \$1,680 during the calendar year leaving a balance of \$5,040 as of December 31, 2008.

Note 5. Cash Drawer

The County Clerk maintains \$800 in the cash drawers which is used for making change to customers. This money will be returned to the County Clerk's official fee account at the end of his term.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Clay County Clerk for the year ended December 31, 2008, and have issued our report thereon dated October 9, 2009. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Clay County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Clay County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 9, 2009

COMMENT AND RECOMMENDATION

CLAY COUNTY
FREDDY W. THOMPSON, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The County Clerk's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we noted the following:

- ❑ The bookkeeper's duties consist of receiving cash, recording cash, preparing bank deposits, preparing and signing checks, posting transactions to the ledgers, reconciling bank records to the ledgers and preparing monthly, quarterly and annual financial reports.
- ❑ Disbursements checks required only one signature

Additionally because a lack of adequate segregation of duties existed and because the County Clerk did not provide oversight over the preparation of deed transfer tax reports, an error occurred on the April 2008 deed transfer tax report to the county resulting in an overpayment of \$5,661.

A segregation of duties over accounting functions such as receiving cash, recording cash, preparing bank deposits, preparing and signing checks, posting transactions to the journals, reconciling bank records and preparing financial reports or implementation of compensating controls, when needed because the number of office staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting including reporting to external agencies such as the state and county. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the County Clerk should separate the duties involved in receiving cash, recording cash, preparing bank deposits, preparing and signing checks, posting transactions to the ledgers, reconciling bank records to the ledgers and preparing monthly, quarterly and annual financial reports. If these duties cannot be separated, strong oversight over those areas should be provided to the employee responsible for these duties. The County Clerk has previously implemented some compensating controls over cash, receipts, and disbursements. If the County Clerk does implement additional oversight instead of segregation of duties, this should be documented on the appropriate source document. The following are examples of additional controls the County Clerk could implement.

- Agree daily Avis computer totals to receipts for usage tax, license fees and tangible personal property taxes. This could be documented by initialing the reports and other supporting documentation.
- Official reconciles other monthly reports to source documents and/or receipts and disbursements ledgers. This could be documented by initializing the reports and other supporting documentation.
- The County Clerk could examine checks signed by the employee and compare to the monthly reports and other supporting documentation. This could be documented by initialing the reports and other supporting documentation.

CLAY COUNTY
FREDDY W. THOMPSON, COUNTY CLERK
COMMENT AND RECOMMENDATION
For The Year Ended December 31, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

The County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

- The County Clerk could receive the bank statements unopened, and review the bank statement for any unusual items prior to giving them to the person responsible for reconciliations.

County Clerk's Response: As I have said before, due to lack of staff in our small county, it is hard to meet these requirements, but I think we have strong internal controls.

